Are Employers Age-Ready?

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Abstract

The evidence shows us that is proving to be a tricky concept for employers to get to grips with. What do we mean by age-ready for starters - do we mean ready for older age workers or do we mean ready for a multi-generational workforce and their perceived differences? The demographic evidence shows us that by 2050, almost one quarter of the world's population will be aged over 60, almost treble the mid-20th century figure. Given that many of these people will still be at work to finance their longer life expectancy, (pension incentives, state retirement ages and low interest rates are not favouring an early exodus from the workplace), my focus for this paper will be mainly on the older age worker phenomenon. However, it has been interesting to learn, that in solving some of the challenges that this group of workers present, employers can solve many of the challenges faced by other generations in the workplace too. This paper will therefore examine how living longer is likely to influence working longer, how the nature of changes to work itself will influence future generations of work, workers and workplace, and ultimately, the paper will dive deeply into what employers can do to achieve a competitive advantage from the changing demographics. In short – how do employers become age-ready?

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Are employers age ready? To answer this directly, the evidence shows us that they are not, apart from a few exemplars. This paper shows how they're not age ready and what they can do to become more age ready, and why it is so important to address this now.

Age is the last remaining *difference* to be tackled in the diversity and inclusion arena. On the one hand, some employers have embraced age and experience as differentiating and diverse characteristics that enable more innovation in their own product development and growth, and better alignment with customer demographics. These employers are realising the value of age and experience. On the other hand, the majority of employers have not yet called out age (or at least not called out older age - the millennial generation is getting plenty of attention) when considering equality amongst employees and when designing policies and practice, or recognised the imperative to change in order to match the realities of labour supply and changing customer needs.

But firstly, what do we mean by age-ready? Do we mean that employers are ready for older- age workers as life expectancy increases in developed economies, or do we mean employers are ready for a multi-generational workforce and their perceived different age related needs?

The demographic evidence shows us that by 2050, almost one quarter of the world's population will be aged over 60, almost treble the mid-20th century figure. Generally, in developed economies that have access to some type of healthcare systems, people are living longer and this longer life needs financing somehow. The statistics and implications will be examined more in this paper. There are therefore significant implications for employers because of longer life expectancy, given that many of these older people will still need to be at work to finance their longer lives. Declining pension tax incentives, increasing state retirement ages and low interest rates prevalent in the same developed economies we mention above, do not favour a financially successful early exodus from the workplace.

The focus for this paper will therefore be on the ways in which employers can best get ready for having more older workers in the workplace rather than attempting to address perceived generational differences. However, it has been interesting to learn from experience, that in addressing some of the needs that older workers might have, employers can solve many of the challenges faced by other generations in the workplace at the same time. Trying to create a fix for just one group can do more harm than good by being divisive, as will be seen from the evidence presented here, and there is often more *sameness* than *difference* when it comes to the challenges of working. Individual differences are often more pronounced than generational differences, and people's needs are determined, in many cases, by the phase of life of the individual, not by the age cohort to which they belong.

Increased longevity comes alongside another crucial world development, namely the Fourth Industrial Revolution (4^{th}IR). The contrary combination of these two epochs will doubtless leave employers confused. People are living longer. Automation is taking more jobs. More working life, less jobs. How will that look? This is a time for deep reflection on the definitions of work, the worker and the workplace.

This paper, taking a predominantly UK focus, will therefore examine how living longer is likely to influence the need to work longer and what this means for employers. What should employers do to achieve a competitive advantage from the changing demographics? In short: How do employers become age-ready?

Why just employers – what about Governments and individuals too?

The challenges associated with an ageing population are not just challenges for the employer. Indeed, a fully functioning ecosystem needs to recognise the roles of Governments and individuals too. The current timing of this paper coincides with every newspaper, magazine, and TV channel telling stories of state systems under intense pressure to do more with less. Health systems such as the UK NHS (London, 2017) and the public health system in Japan (Ataki, 2017) are under strain as people live longer and drugs become more sophisticated and expensive. Pension systems too are severely strained by longevity trends – more on this later. Governments are aware of the pressures, but both health and pensions systems are fraught with political short-termism and an overload of opinions.

For individuals, the challenges are two-fold: firstly, the 4th IR threatens to bring change full circle. What was, before the first Industrial Revolution in the 1700s, a system wherein individuals bore all the financial risk in times of unemployment, exclusion, sickness, disability, and old-age, has since moved more towards State- and employer- sponsored Social Protection in later industrial revolutions. Individuals enjoyed some protection for major life events from their employer or their Government. However, individuals are once again now bearing more risk (Sonsino & Veitch, 2017).

Severely underfunded state social systems are at breaking point and offering less protection to individuals, and in some cases new-worker style employers such as Uber are backing away from traditional employment models and social protection contributions (Sonsino & Veitch, 2017). Individuals are once again shouldering a larger share of the risks for life events such as sickness, disability, unemployment and old-age.

The trend shows longevity continues to increase on the one hand, and the second challenge facing individuals is that the nature of work itself is changing; there is a greater onus on individuals to upgrade their own skill sets. Automation of jobs coupled with more use of Artificial Intelligence (AI) solutions are becoming more commonplace, and as new jobs are created and new skills are needed, individuals will have to consider how they upgrade their skills and keep themselves employable. The nature of the employment contract is also changing as more traditional permanent roles are replaced by a gig-worker style relationship, where contracts are short- term and temporary.

The familiar concepts of work, the worker, and the workplace are all ripe for redefinition.

Governments can, and will, only do so much, and have historically shared their responsibility with employers. In turn, this responsibility has been shared with employees. Indeed, individuals have come to rely on their employers for support, often with limited input from themselves. However, one UK study shows that over 70% of individuals expect their employer to do more to prepare them for the future (Mercer, 2015). Government support is often deemed to be the final backstop. But a sharing of risk and support between Governments, employers, and individuals is the best solution. As societies age, it is the proportions of how that risk is shared which now needs review.

Longevity trends

Our attention now turns to understanding how much longer people will live and work. A range of data which best illustrates the extent of increasing life expectancy in a number of key geographies around the world is presented below.

In the UK, the last decade has seen a 70% increase in the number of people aged over 100. In the 1950s people worked for 50 years and then retired for 10. By the 2000s, people worked for 45 years and retired for 23 years. Now, some are predicted to work for 60 or more years and phase a transition into retirement, with part-time work to supplement pension income for several more years. Some may never think about retiring at all, as they may not be able to afford it, or they may stay because they enjoy the social aspects of work too much to leave.

Putting the longevity trend into sharp focus using a UK example, the graph below shows the changes in the generations of current school age children, versus their parents, grandparents, and great grandparents, with respect to the increasing likelihood of each of them reaching age 100:

(Insert Figure 1)

Children being born now are up to five times more likely to reach age 100 than their great grandparents and the experiences of work, the worker and the workplace have been, and will continue to be, very different for each of these generations. While only four generations are shown here, there are now examples of up to five generations in the workplace, and their individual life stages will mean employers have to be ready to accommodate more work-style situations than they have in the past.

Looking further afield, life expectancies at birth have increased by seven to 14 years in most countries during the last 40 years, equating to an average of one additional year for every four years (Victorian Govt and Mercer, 2016). Population ageing is set to affect all OECD countries over coming decades. Demographic projections are uncertain, but on middle-of-the-road assumptions, the ratio of elderly people (over 65) to those between 20 and 64 could double between now and the middle of the century. In some countries, such as Japan, Germany, Greece, Italy and Spain, this ageing effect will be much stronger (OECD, 2003). Due to higher life expectancy and lower fertility rates, the elderly population accounts for almost 15% of OECD population in 2010, up from just over 12% 15 years earlier. The proportion of elderly population is remarkably lower in the emerging economies (India, South Africa, Brazil and China) and in countries such as Mexico, Turkey and Chile and arguably these countries will not face the same labour force pressures as developed countries. The graph below illustrates the elderly population as a percentage of the total population in OECD countries, and shows how it has grown (in all cases except Ireland and Norway where the ratio has declined), since 1995. In some cases it has nearly doubled.

(Insert Figure 2)

The effects of population ageing have state, civil, social, and economic implications. An older population tends to spend less and have more in savings, pensions and property, so the consumer dynamics will differ. Lower spending can lead to lower inflation and lower interest rates, and at the same time, state systems are put under pressure with higher health care and state pension costs. As the dependency ratio (the measure showing the number of dependants, aged zero to 14 and over the age of 65, against the remainder of the population aged 15 to 64) rises, mainly a developed world challenge, it is a shrinking working population which is left to contribute to raising taxes in the economy, which in turn service the health and pension debt.

State retirement ages are being extended, and in many cases mandatory employment retirement ages are being abolished in order to alleviate strain on pensions systems. Falling birth rates conversely mean education costs shrink, as there are fewer people going into the education system and those that do, will likely be needed sooner in the workforce and therefore do not tend to continue into tertiary education. All of these are consequences of demographic shifts and require careful attention to ensure a well-balanced economy can be maintained.

Given that the role of the employer takes such a high profile in this broader context, and that it is likely that many employees will have to continue working for much longer, we now turn to the key items which employers need to consider carefully in order to become more age-ready.

How can employers become more age ready?

The key things they can do are explored in the following key categories:

1. Health risks – maintaining physical and mental wellness
2. Financial wellness – affordability of retirement
3. Succession planning – a practical approach to deployment
4. Motivation and commitment – a new paradigm for a longer working life
5. Training and skills – keeping current to adapt to changes to work itself
6. Workplace design – how to adapt and survive

Each of these elements will be examined in turn, presenting the evidence upon which to draw meaningful conclusions to address the title question.

<u>Health Risks – physical and mental wellness.</u> The term wellness can be used more broadly than just for physical and mental health; it is also used in the next section with regards to financial wellness, and has been more widely associated with other domains, including social, environmental, spiritual, and occupational wellness. Wellness as defined here means the quality or state of being healthy in body and mind. It is a term used to express a state achieved as a result of *deliberate effort*, which is a subtle but important distinction. As the paradigm shifts in the 4th IR to one where the individual again shoulders more of the burden rather than the state, it reflects a corresponding shift of ownership (deliberate effort) onto the part of the individual. As has already been noted, the majority of employees expect more from their employers, not less.

How then, can we prepare employers and employees for this gap in perceptions and approach as the population ages?

On physical health, a recent study from the UK's Health and Safety Executive's (HSE) Laboratory (Yeomans, 2013) set out to explore the evidence for age related health and productivity decline. The findings show that there is little evidence that chronological age is a determinant of good health, cognitive or physical abilities, sickness absence, work-related injuries or productivity in the workplace.

In fact, it found that older workers – people over 50 – have much the same physical ability as younger workers in terms of physical strength and stamina. It shows that muscle strength declines between 30 and 65 years of age but this decline is unlikely to be noticeable until after the age of 65. Aerobic capacity appears to decline progressively after the age of 30, and accelerates in decline after the age of 70. The HSE's view is that age-related declines in physical capacity do not normally affect job performance in any case, as physical capacity varies more between individuals than by age. While there is some evidence that older workers may have a higher need for recovery from physically demanding work than younger workers, physical capacity is not deemed to affect job performance partly because there are not many jobs which require sustained strength over a long period of time, and labour-saving machinery and devices are often used to support delivery of this type of job by workers of all ages. Inevitably, there are some strong manual labour occupations that may become more difficult to do with progressive older age, and these need to be looked at on a sector by sector and job by job basis to explore options that work for them.

As well as little evidence that performance of core skills declines with age, there is evidence that certain other aspects of performance, such as good timekeeping, helping colleagues, better anger management and people skills, improve with age. There is also evidence that older workers perform better in terms of accuracy and consistency.

A number of key health conditions such as stress, musculoskeletal disorders (MSDs) and cardiovascular disease are shown to increase with age however. Symptoms of work-related stress appear to peak at age 50 and then decrease again in older ages. The findings suggest that it is not the age of the worker that is the issue here, but these are more workplace-related conditions, particularly with MSDs and stress. Recent experience of UK based disability insurers also confirms that there is an increasing risk of certain cancers with older age.

Eyesight and hearing do deteriorate with age, but these declines can easily be compensated for by the use of aids such as spectacles or a hearing aid, or by adaptations to the environment such as better lighting and sound proofing.

On mental health, there is evidence that cognitive performance does not generally show any marked decrease until after the age of 70, and that cognitive skills such as intelligence, knowledge, language, and complex problem solving are resistant to age-related declines, and can continue to improve with age until 60.

There will be an increase of individuals in the workplace suffering from dementia as the population lives longer as this condition increases with age. Already in the UK, one in 20 people under age 65 suffer from the condition and some of them will still be working. This ratio increases to one in six people aged over 80 and in the UK, the annual costs are already estimated at £26bn per annum, of which private individuals fund around two-thirds, and the State pays the other one-third. Globally, there are around 36m people suffering with dementia and this is expected to double every 20 years. Neither employers nor Governments nor individuals are ready for the cost impact or caring requirements of dementia on this scale. Cognitive wellbeing assessments, which can detect evidence of cognitive decline, are likely to become part of the next generation of regularised annual health check-ups. Early detection and intervention can be beneficial as some cases are treatable, and fully or partially reversible. These types of cognitive tests are not yet widely available however employers would be wise to seek them out and consider the ROI of regularising them, given the potential consequences of cognitive impairment on work quality, particularly at more senior levels.

Finally, evidence shows that younger workers under the age of 35 have a higher rate of sickness absence (2.6%) than older workers (2.4% for the age 50 to State Pension Age group) and at a cost to UK employers of around £16bn per annum, this is no small issue. Evidence gathered in research by Britain's Healthiest Company Study in 2015 estimated lost productivity due to absenteeism and presenteeism, whether physical or mental health related, to be as much as 7.85% of payroll costs, but it is possible to reduce this significantly with targeted and proactive 'prevention is better than cure' strategies, and as can be seen from the evidence presented above, these need to be targeted at all age groups to ensure the whole workforce stays fit, well and productive.

Health-related employee benefit insurance costs to employers which will be impacted by an ageing workforce typically comprise of life insurance, disability insurance, and private healthcare. An estimate of the impact on these costs in the UK for a workforce that is 10 years older than a baseline is an increase of around 56%. This increases to 98% if the workforce is 15 years older (Mercer, 2015). These costs may be significantly higher in other countries that do not have a state-sponsored healthcare system, such as the US. In an era of increasingly low interest rates, political turmoil and growth and trade challenges, employers are not ready for this level of cost increase, which can add up to several percentage points onto payroll costs. Cost projection and forecasting models are readily available and can help with both planning and mitigating these cost impacts.

Interventions that achieve prevention of disease and chronic conditions are the most effective answer. The Oxford Health Alliance's 3-4-50 model, which aims to reduce the global impact of 3 risk factors (tobacco use, poor diet, and lack of physical exercise) which lead to the epidemic of 4 major chronic diseases (diabetes, heart disease, lung diseases, and some cancers) -- which together account for over 50% of deaths in the world -- is a good example. Models which use health data captured from individuals through wearable devices can also be useful in containing costs as good health behaviour will be treated favourably for underwriting purposes.

<u>Financial Wellness – affordability of retirement.</u> Living longer means there will be more life to 'fund'. The costs of funding an extra year of life can range anywhere from the equivalent of the national minimum wage as a guide, to around 10 times that sum if you need elder care (residential and / or nursing care) in later life. And the value of pensions and savings plans to help with funding life post-working has become increasingly complex to predict, with depleted scope as a result of pension plan design shifts, worsening tax incentives, and long term low interest rates. In terms of individuals understanding whether or not they can afford to retire, there are many obstacles in their way.

Firstly, predicting how long you will live (and therefore how much savings you will need) is impossible in almost all cases. Secondly, understanding how pensions and savings plans will perform in investment markets over the long term is equally as difficult to predict. Being 'deliberate', as we now understand the wellness term to mean, equates to *planning* for financial wellness. In order to plan, people need answers to these two seemingly impossible questions.

Retirement, as we used to know it, meant a clean break from work at state pension age.

One day you were a policeman, the next day you were a pensioner. Retirement is now looking increasingly different from this traditional model. State retirement ages in many countries are rising and, similarly, mandatory retirement ages in the workplace are being abolished. Retirement is becoming more of a process than an event, with people transitioning more slowly over a period of years from work to non-work. One in four Australians run out of pension money in retirement and supplementing their income with part-time work has become typical practice.

There are a number of other ways in which a transitional approach to retirement is manifesting. With an anticipated growth of the freelance population in the US from 53m in 2016 to over 100m by 2020, this pays testament to how people may continue to engage with employment in future. Freelancers work on the basis of ‘my time, my terms’. Short term, temporary assignments or part time working can supplement pension income and balance work-life. There are examples of people starting a new career in later life as an Uber driver one or two days each week (some estimates put their driver numbers as high as 1m worldwide). This may be combined with running a small business at the same time, or earning money from hobbies, slowly winding down the work elements as it becomes more realistic to quantify answers to the two impossible questions, or when health issues force exit from the workforce.

Employers can help in understanding the affordability of retirement question, and it makes sense for them to do so in order to help with succession planning. They can help employees by providing access to advice for individuals to ensure sensible forecasting of the two impossible to answer questions, and by offering programmes that can help them plan and save for retirement, whenever it may be. Not enough employers do this, however, and, to put this into context, a recent survey (Mercer, 2015), showed us that only 26% of employers prepared employees well enough with this type of financial planning for retirement. There is evidence to suggest that more provision is on the increase however, with a recent US survey showing an increase from 53% to 69% of employers offering financial advice to employees over the last year. Increasingly, this will be via digital means, or robo-advice platforms (online services that provide automated, algorithm-based portfolio management advice without the use of human financial planners), meaning it will reach the masses and will be more cost effective, but will it be specific enough to answer the two impossible questions?

There have been innumerable papers written on the topic of the benefits offered under different types of pension plan, particularly defined benefits (DB) versus defined contribution (DC) plans. This paper will not repeat the findings of other papers, but will focus in on one key set of statistics which are not always brought into the debate. This is that women, who live longer than men, typically have career gaps for childbirth and caring, and earn less (the average gender pay gap in Europe is 25%), compound the pension problem still further, and can find themselves with a pension that is 40% worse than men, all other things being equal (Sonsino, 2015). The following figure summarises the effects of compounding pension plan design changes and the different impact for men and women. The figures have been calculated assuming a job level of a mid-level professional earning around £55,000 p.a. (UK example):

(Insert Figure 3)

Affordability of retirement looks increasingly less likely as we run down through the groups in this table. Unfortunately, changes beyond the individual’s control (changing pension regulation, changing life expectancy, interest rates) mean that we have a severely affected sector of the population at the lower end of this chart. This is particularly so for women, and will be an increasing problem for younger generations who are now facing a lifetime of DC style pension provision. There is a generational inequity developing here as well as an entrenched gender one, and both need urgent attention.

One potential solution to this is increased transparency of potential pension savings value. Simple, personalised reminders on a regular basis of how much your pension is likely to be, relative to your earnings, can help people understand if there are gaps in what they will get compared to what they would like or need. Greater use of short personalised videos and other visual methods to portray this information are proving to be very effective in encouraging increased pension savings behaviour and awareness.

The Financial Conduct Authority (FCA), a body that regulates financial markets in the UK, is calling for providers and professionals in the financial services industry to respond to the dearth of available products that are age friendly. In an update issued by them in 2016 (Financial Conduct Authority, 2016), they have established work streams that will address:

- What happens as the mind ages, and what does this mean in terms of products, services and distribution? Evidence is being sought to inform how people need to get advice and information as they age, and how to make it most effective.
- How can firms help consumers to better engage with products and services in retail banking? Digital is not always the right way to engage with older customers.
- How can the FCA build on existing industry initiatives to facilitate mortgage lending to older consumers? Using equity release is becoming increasingly popular – utilising capital as a charge against property to generate an income for the post-working period.
- Can older people and their families access regulated advice for long term care? As in many other countries, the UK is facing a crisis in growing shortages of available care and care products. This area requires urgent review.

- How can we work with stakeholders to support those that require third-party access to bank accounts, which has historically proved to be legally complex? This will become more prevalent as more people need care from relatives.
- Is there more that can be done to help consumers navigate markets where upper age limits exist such as mortgages and other insurance and savings products? As employees increasingly remain in the workforce past state retirement age, the end date (age limit) for some work related employee benefits may be passed, leaving a potential situation where some employees are no longer covered for contractual benefits.

Extensive research is being undertaken by the FCA and the results are expected Summer 2017. The research will provide useful insights for future product development, which in turn can be applied by those employers who wish to become more age ready, and by individuals who want to become more *deliberate* in their quest for financial wellness.

<u>Succession Planning – a practical approach to deployment.</u> There are two priority assumptions to be explored in this section:

1. Many jump to the conclusion that older workers are taking work away from younger generations, and that the right thing to do is to move older workers out and bring in fresh young talent.
2. Many also believe that older workers cost more than younger incumbents, which reinforces the need for 1. above.

While the removal of mandatory retirement ages in many countries does clearly present HR teams with an additional uncertainty about when jobs will become vacant, (although anecdotal evidence suggests that less than 25% of people on succession plans ever move into the job they are lined up for anyway), the two traditional assumptions above need to be explored in more detail as the evidence shows them to be inaccurate, and not supportive in an age ready culture.

On point 1., the now infamous lump of labour fallacy shows us that, ‘the authors … find no evidence in favour of the common claim that there are a fixed number of jobs into which the young will move when older workers retire. In fact if anything, they find that generous government retirement benefits, which lead to more retirement by older workers, end up hurting the employment status of younger workers…Paying for old persons to leave the labour force reduces the employment rate and increases the unemployment rate of youth and of persons in their prime age working years’ (NBER, 2009) Given this evidence, it follows that it is in everyone’s interests to keep all ages of workers gainfully employed for as long as possible. In fact, the newly appointed Business Champion for Older Workers in the UK, Andy Briggs, CEO of Aviva UK Life, is spearheading a new campaign called One Million More (BITC, 2017). The aim is to increase the participation rate of older workers in the UK workforce to the same levels as participation of the age 35 to 49 year age group by 2022, which would increase the level of GDP by 5.5% (approximately £88bn). This equates to one million more workers aged between 50 to 69 in the UK workforce. Coming at a time when Brexit migration predictions show that the UK will see a significant shortage of workers (up to 2.5m less) in the coming years (Mercer, 2017), and labour projections show that in five year’s time, there will be an extra 14.5m jobs in the UK but there will only be 7m more new, younger workers, in the UK, keeping older people in the workforce will help make up the difference, and could potentially improve the economy by a significant margin.

In response to assumption 2., the costs of older versus younger workers, it is interesting to review pay data across the age bands to see the general trends and pattern.

(Insert Table 1)

Pay levels peaked at around age 50 for this sample and then subsequently receded. For many in this cohort, the reduction would have been due to early retirement. When you look more closely at large quantities of actual pay data as in the following table however, it can be seen that, at all job levels from unskilled through to executive roles, pay climbs more steeply and then plateaus at a relatively early age. For lower level and unskilled jobs, a 25 year old is earning very similar levels as a 55 year old, and then as you move up the skill levels, for example to professional and middle manager levels, the 35 year old is earning a very similar amount as a 60 year old. There is a small decline in pay across all levels by age 50 from between -0.1% to -7.4% per annum depending on age and job level. At the unskilled level, the decline, albeit small, actually starts as early as age 40.

(Insert Table 2)

The findings of this data are counter intuitive, because if you take into account experience as a valuable trait, which in many jobs is certainly the case, then it is the older worker who should add most value and cost more but whose pay is in fact has plateaued for a significant period. There is also an important issue to review concerning the company based end of year performance rating of older workers upon which pay reviews are often based. Data show that these ratings are typically ‘rationed’ and when managers are only allowed one top grade per five employees, these grades are used sparingly and skewed towards rising young talent. Mercer’s Age Friendly survey (see Appendix One) reveals that only 15% of companies check whether there is an even distribution of performance grades from an age band perspective, but of those that do, 82% believed the check was a very effective method of ensuring age fairness.

Part of the succession planning cycle involves recruiting into roles as well as moving people internally. Recruitment practices are changing and employing evermore digital approaches, which in themselves are not immediately inclusive to all age groups. Employers are not typically age ready when it comes to hiring and few consider age as one of the standard diversity and inclusion metrics. Data shows that 92% of employment agencies have never run a check to determine if a client is discriminating on the basis of age, and 87% of companies have not checked whether managers are hiring workers older than themselves. Of the remaining 13% that do measure this, more than half found that managers do not hire older workers (Mercer, 2015). Discrimination bias in recruitment and succession planning are illegal but still occur. An age-ready employer needs to ensure practices and checks are in place that do not allow this to happen and the two opening assumptions from the start of this section are myths that need to be openly revoked to encourage fairer practice. A culture of ageism still exists and needs to be tackled.

<u>Motivation and commitment – a new paradigm.</u> The typical career shape, as could be seen from the pay curve data above, tends to see progression rise more steeply in the early years and then level out. We know also from the pay data that earnings start to decline after age 50. Individuals may see a continued rise in their career if they continue to be promoted, but ultimately there are fewer roles at the top of the seniority pyramid, which means that most people will not see a continuous career rise throughout their entire working lives. This brings us to an interesting hypothesis about what then happens to the shape of the career as we live longer. Will it continue to rise in the earlier years, then plateau with a later decline, looking more like a stretched-limousine, or will it start to have multiple peaks as people move into different careers and the shape will become more like a Bactrian (two-humped) camel? Given that the working life may

be significantly longer as the population ages, a double- or treble-peaked career could be possible.

Taking a UK example to put this into context, a five year old now could live to 120. This could mean an 80-year or more career is entirely possible. To retain a level of motivation in the same job for 80 years defies belief – partly because it is highly unlikely that a job will remain constant for that long, and partly because any volume of evidence to show us that sustaining motivation and commitment to work over that length of time has not yet been created, let alone evaluated. Models of how to sustain motivation and engagement are likely to have to evolve significantly to accommodate potentially longer working lives, and as these are linked to productivity, measures which keep them at optimum levels will be highly important to business success. Employers are not yet ready for this – it is new territory.

There is also evidence to suggest that even people who are very happy in their jobs are considering leaving, more so at the younger generations who favour rapid career acceleration. "I Love My Job But I Am Leaving," say 42% of very satisfied workers surveyed in research entitled Inside Employees Minds (Mercer, 2015). Given that younger generations are also the ones who are living even longer, this tends to suggest that as pay and career progression begin to slow down in their 30s and 40s, engagement and motivation could be at the lowest levels that we have experienced to date, and for potentially much longer periods.

Money is not the only motivator however; for some it could be learning opportunities, job flexibility, or the quality of the people they work with that are of more interest, and as the workplace begins to get more age-ready, employers would do well to explore these options directly by asking employees and understanding better what engages them.

Training and skills – changes to work itself. According to the WEF research in its Future of Jobs Report, 2016, (WEF, 2016) 65% of current primary school children will go into jobs that do not even exist today. It is also expected that 35% of job-related skills will change by 2020, leaving employers with either a need for a bigger training budget or facing a major recruitment drive. The main job types that will decline because of the threat of automation include office and administration jobs, particularly routine and repetitive work where Robotic Process Automation (RPA) has readily shown it can be quicker, cheaper, and more accurate than a person doing certain tasks. In addition, manufacturing and production jobs -- which have, in many cases, already been automated to some extent -- and construction and extraction roles are under the highest threat. Jobs that are likely to increase will be those that include business-related financial and operational activities, such as data scientists, driven by continued increases in processing power and the desire to examine insights derived from mining big data pools. Information security analysts will also be in greater demand as more cyber-crime occurs and corresponding prevention strategies are devised. It is also expected that there will be a greater need for educators to support reskilling needs, and carers, to support the ageing population.

In general we know that human labour is being displaced by automation, robotics, and artificial intelligence as outlined above, but opinions differ on the extent of what is likely: the Oxford Martin School study (Frey & Osbourne, 2013) found that 47% of US employment is at high risk of being automated over the next two decades, while a 2016 study of 21 OECD countries (OECD, 2016) concluded that only 9% of jobs are at high risk of being automated. The distinction is whether it will be skills, or people, that are replaced, the OECD arguing more that it is skills. But in either case, the future of work looks different. More recent studies show that automation will have a positive effect on productivity, outstripping the increases achieved from steam power, IT, and early robotics put together. Workers will be needed alongside machines to achieve this growth, rather than be scrap-heaped, as some sensationalists are predicting (McKinsey Global Institute, 2017).

The fact that the 4th IR and major demographic shifts are occurring at the same time presents an extraordinarily complex set of circumstances by which to determine the long-term strategy for employers regarding people. Not only do employers have to be age-ready, they have to be ready for the future of work at the same time.

More training and re-skilling – at all ages - and across most if not all sectors is inevitable. It is not surprising therefore that the annual growth in global training spend has doubled from around 5% growth to 10% growth in 2015, taking this global market to more than an estimated $350bn. It is anticipated that there will be much attention paid by employers to balancing the cost of reskilling versus capability building in the near term. This is likely to be one of the most significant challenges for employers who seek to be leaders in the new wave of business post 4th IR. Training for older workers to ensure age readiness will be just a small part of this wholesale need to reskill.

<u>Workplace Design – how to adapt and survive.</u> The ergonomics of the workplace have an impact on the physical body, and must therefore be a consideration for employers as people get older. Indeed, simple changes to the workplace can make things significantly more comfortable for the physical body, and many studies and examples exist to prove this is the case. One of the best known of these studies is from BMW, which, through the accumulation of a number of small, inexpensive changes such as better seats, new adjustable workbenches, and wooden flooring that provide better cushioning and insulation, managed to improve productivity of older workers by 7%.

However, there are fewer possibilities to make such changes in the workplace environment for certain professions such as utility workers and water and drainage engineers, or road and construction workers that are faced with the elements and the outdoors, but employers are being creative in these examples too. Some sectors have opted to redeploy older, skilled field engineers into training up the next generation, or into consultancy and trouble-shooting roles. This is proving to be an effective strategy for those who try it. A recent example of Toyota's work in this regard has been to assess workers health and capabilities for the jobs ahead, and implement health interventions, new skills training, and / or workplace-based interventions to improve conditions, such as the Zero Gravity bolting gun which is weightless and makes the process easier to manage – for all ages. Assessment and planning enabled Toyota to achieve success in this recent exercise aimed at creating a more age-ready organisation.

The nature of how work is delivered is also undergoing a major refresh. Flexible working is becoming much the norm. In fact, a leading piece of UK research (My Family Care and Hydrogen, 2016) shows that 53% of people working would rather have flexible working than a 5% salary rise, and 45% of those would sacrifice pay rises of 10% to have flexible working. It also showed that 81% of people looking for work would rather have flexible working than any other employee benefit; 83% of male parents and carers, and 87% of female parents and carers favour flexible working as the top benefit they look for in a job.

However, flexible working needs defining, as there is, as yet, no standardised global view of what flexible working actually means. In this study, it means flexibility over start and finish times as well as the location of the role, i.e. the ability to work remotely. In wider definitions, more appropriate to changes in working practices, flexible working encompasses freelance contracting and multiple job 'shift-stacking' (where employees work for several employers at a time and arrange shift patterns to fill their availability during the working week) as well as extreme remote (virtual) team structures.

But it is not just the definition that gives employers and line managers problems with the concept of flexible working; there are more fundamental issues that need to be addressed around trust (questions such as: Am I judged by my presence or my output?) and around consistency (what is acceptable to one manager does not necessarily transfer to the next). A framework to help employers define the flexibility quotient of each job and assess the impact of flexible working on jobs adjacent or dependent on each other would be an important addition to the tools available to HR to enable greater uptake and more effective utilisation of flexible working practices. Flexible working is top of the list for age ready employers, as can be seen in the survey results in Appendix One.

Employers and Governments are not ready for the change to employment practices which the shift to new style working will create, as there is too much uncertainty over the outcomes and still a great deal of inconsistency. Employers are not ready for the practical implications of managing a fully flexible workforce as managers themselves are not prepared for how to apply processes fairly. Indeed, processes have not been defined in most cases. Social protection systems often do not fully support the freelance or flexible worker in times of unemployment, sickness, inclusion, and old age, and will require radical review to prevent human suffering.

What does an employer need to do to become age-ready?

An interesting set of design principles has emerged from a piece of research by 'The Age of No Retirement' (AONR, 2016)which shows that age is less relevant than expected when thinking about the design of new products and services. In this survey of over 2000 people aged between 18 to 99, 83% of respondents stated that they did not feel they were always like everyone else in their age group, hence the coinage of phrase and the title for the research report *'Age does not define us'*. Further, the research showed that 83% of respondents wanted to mix with people of different ages and generations, and 85% of every generation want to keep active as long as possible and keep learning new things. On technology, 89% of the youngest and 84% of the oldest survey respondents rely heavily on the internet, but both ends of the age spectrum felt equally overwhelmed by new technology and want life to slow down. Finally, 88% said that brands should focus on the needs and interests of individuals, not the perceived needs and interests based on age.

These results and the catalogue of design principles laid out by AONR create a useful benchmark of opinion, and employers would do well to heed the advice – *age does not define us*. Assessing what employees want and need as individuals begins by asking them what is relevant to their various life stages. Implementing actions must be done in a way that is fair to all. Employers are not yet age ready under a number of headings as has been discussed above. But there are a number of simple things that employers can do to turn this around. A simple checklist follows, whichcould ensure that the workplace is an age-friendly one for every generation in the workplace.

(Insert Figure 4)

Conclusion

Are employers age ready? The majority of employers are not. A few are preparing well for the longer time people will spend in work because of longer life expectancy and the need to finance it. The removal of mandatory retirement ages, allowing people to work longer, combined with

labour shortages, through reduced birth rates and migration controls, add more pressure to employers to become age ready to attract and retain their share of the labour pool. The few that are preparing well embrace age and experience as important parts of the diversity agenda, but much more than this, they are realising the ***value*** of these qualities to their businesses. These employers understand that their customers are ageing too, and they are matching their thinking inside the organisation with the thinking of the buyers outside of their organisations.
Becoming an age ready employer is not simply another diversity box to tick however. Eradicating ageism, which can lead to expensive tribunals and legal settlements is just one of the 'compliance' related reasons, but there are more compelling commercial reasons.

Being aligned with ageing customers, and who represent one of the wealthiest generations ever to have existed, makes sound commercial sense. The so called Silver Economy (European Commission, 2015) is already estimated at $7tn pa, making it the third largest economy in the world. By 2020, spending by the elderly generation is expected to reach $15tn pa. Public spending on this sector equates to around 25% GDP in Europe, but Governments feel this spending could be put to better use by building new markets, which in turn will consume and increase demand. In order to do this, employers need to become age ready in every sense of the word. Employers need to be creating products which can be consumed by this rapidly growing, older economy, and providing jobs for people who need to work to finance their longer lives. Employers who ignore the supply and demand implications of changing demographics do so at their peril.

Age remains the final stigma in people's differences, and bias is still rife, particularly in recruitment and progression. Like the 'M' word – ***Menopause*** – no-one really feels comfortable talking about it openly, and many have developed ill-conceived perceptions that perpetuate ageism and biases that assume older people are more sick, more expensive, and less productive. These points are simply not true. Until these myths are exploded more publicly, and more good examples and role models become part of our culture, ageism will continue to exist.

In order to become more age ready, employers need to explore how to optimise the physical and mental wellness aspects of working, and there are proven techniques to achieve this, which can result in cost savings, reduced absence statistics and healthier workers - at all age groups.

Employers need to get a much better understanding of whether their employees can afford to retire, and if so when and whether they actually want to. Without this information, succession planning is near impossible, but getting the information can be invasive and sensitive. Campaigns which encourage more transparency around financial wellness and, at the same time, support for alternative working models – such as job sharing for the older worker and their prospective successors - are proving to be very effective. For women, who live longer than men and earn less, affordability of retirement is a particularly urgent issue. Starting to set aside retirement funds at an earlier age has been a perennial challenge, but more transparency and good financial wellness planning will aid all generations.

Employers also need to take stock of training needs and skill changes in their businesses, and start to plan for skilling up for the jobs of the future. For instance, how will automation and AI impact jobs and people? What types of workers and skills are needed for current jobs and for new jobs in, say, five years? If 65% of current primary school children will be doing jobs that do not exist today, then re-skilling is not just a process to be applied to older workers – it applies to all. Arguably, older worker skill gaps are a drop in the ocean compared to the global scale of job change and education required for the redefined future of work, the worker, and the workplace.

This is likely to require the single most significant effort that HR teams and organisations have faced in decades, but without the right capabilities and resource in the workforce, such as digital and data expertise, new style sales teams, resilient and adaptable workers, businesses will simply not survive.

At the same time, changes to the workplace that can increase levels of motivation, engagement, and productivity will provide additional incremental improvements. These types of changes will not just be relevant for older workers but are likely to engage all other generations at the same time. Arguably, motivation and engagement are a bigger issue for younger age groups who want fast progression, and this will not get any easier as longevity increases and progression stagnates over a longer working lifetime, in line with historic patterns.

The key to achieving age readiness lies in assessment and planning. Using the checklist provided, employers can prioritise some quick wins and consider the implications of more disruptive longer-term interventions. But the checklist should not be completed in isolation. It needs to be reviewed in conjunction with data about the organisation’s current worker age profile, the costs, design, and effectiveness of health and pension programmes, feedback from employees on what is important to them and needed by them for their current phase of life, as well as data which investigates age distribution in recruitment, training, and performance, pay, and bonus cycles. Last but not least, customer feedback will also yield valuable insights to the assessment process.

The combined data will yield a picture of age-readiness in organisations, and help prioritise areas for action. These actions will benefit all generations in the workplace. Younger workers with children may need the same sort of flexibility as older workers who are carers. Employees who are keen to progress their careers, or even just change direction, need to understand what skills they need to develop in order to be successful, and what roles are available. The process for assessing these items is the same - regardless of age or level. Mid-career reviews and lifelong learning should become the norm given that future working lives may last for 80+ years.

Being an age-ready employer will be an essential part of the future of business. Work, worker and workplace need to be redefined in this future, and we have explored some of the emerging new patterns in this paper. Careers will be longer and boundaries between work and retirement will be less clear or even extinct. The benefits for all of being age ready -- including Governments, employers, and employees -- will be improved productivity, improved financial health and, with care and attention, improved physical and mental health of employees.

(Insert Appendix Table 1)

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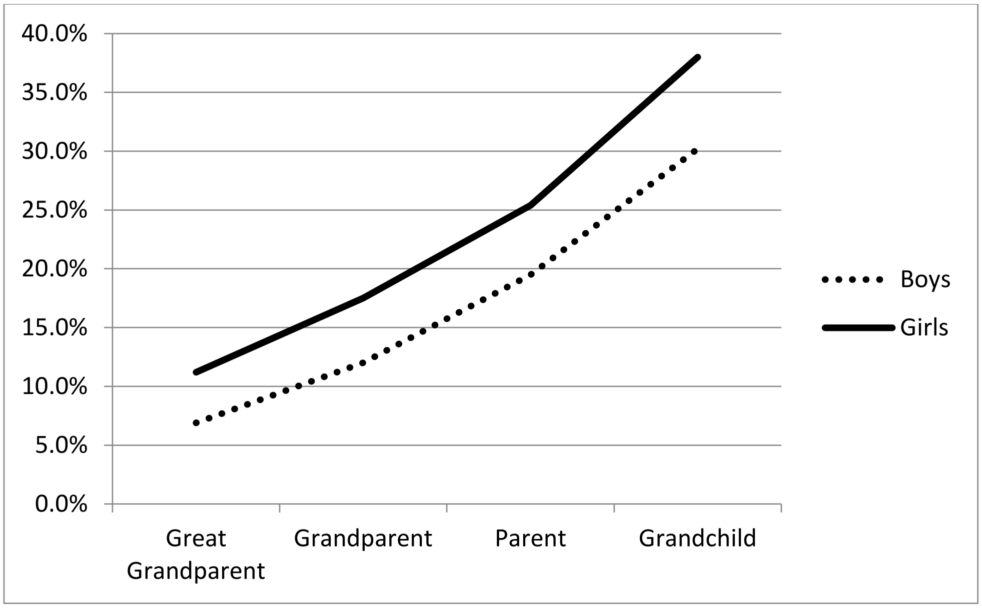


Figure 1: Liklihood of current four generations reaching age 100 in UK (Sonsino, 2015)

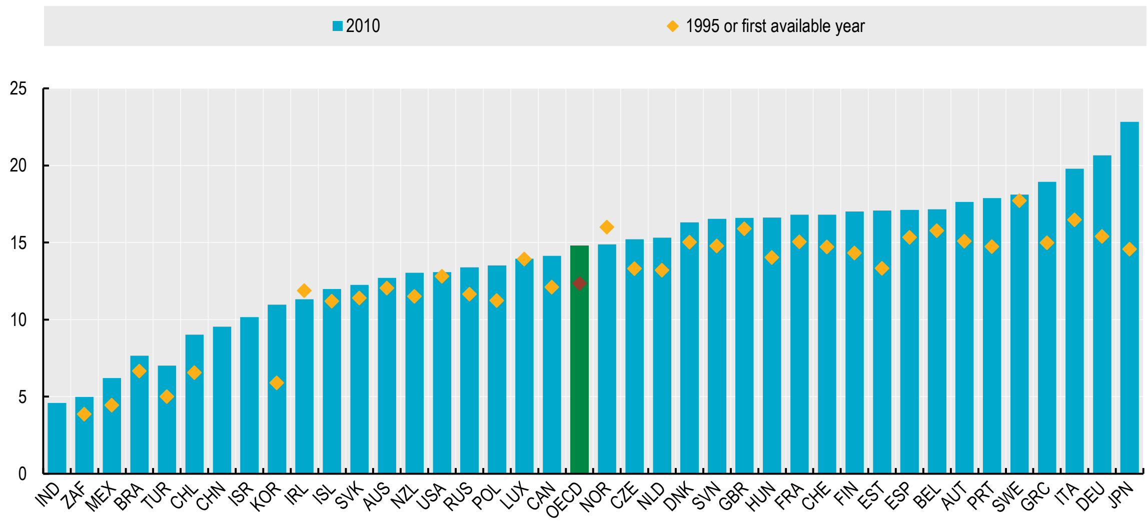


Figure 2: Elderly population as a percentage of the total population in OECD countries (OECD, 2013)

Type of pension plan	**Type of person**	**Pension pa (including state pension at age 65)**
DB (n/60th plan) Investment and longevity risk borne by plan	Male, full career to state pension age	£44,531
DB (n/60th plan) Investment and longevity risk borne by plan	Female with 10 year career gap (an average career gap, either having children, caring for elderly relatives or both)	£35,365
DB (n/60th plan) Investment and longevity risk borne by plan	Female with 10 year career gap and EU average pay gap of 25%	£28,490
DC (8% contribution) Investment and longevity risk borne by individual	Male, full career in new average design pension plan	£15,904
DC (8% contribution) Investment and longevity risk borne by individual	Female with 10 year career gap in new average design pension plan	£13,151
DC (8% contribution) Investment and longevity risk borne by individual	Female with 10 year career gap and EU average pay gap of 25% in new average design pension plan	£11,830

Figure 3: The effects of pension plan design and gender on resulting pension (Sonsino, 2015)

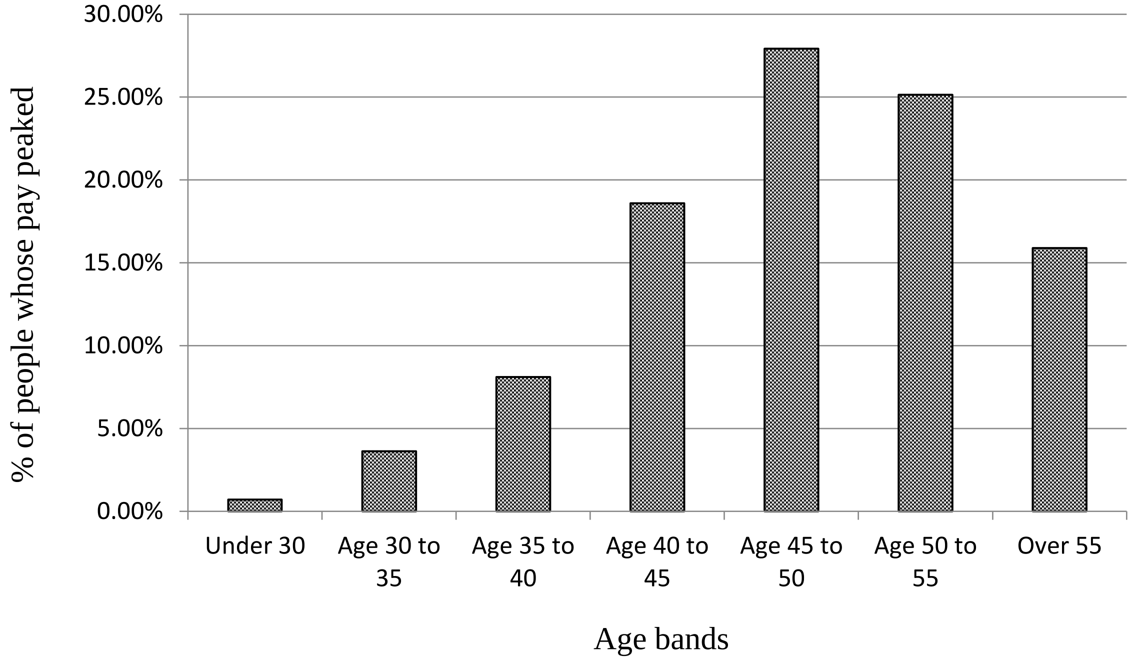
Age Ready Employer **Intervention**	**Easy quick win** **Yes/No**	**Longer term but should do** **Yes / No**	**Unlikely to be actioned** **Yes / No and Why?**
Define and implement **effective flexible working** for all age groups			
Ensure there is an effective long term **'Preparing for Retirement'** programme which helps employees understand the financial and social implications of leaving work			
Provide advice and **support for those caring** for ageing relatives and young children alike – the challenges for both categories are similar			
Examine **health and / or absence analytics** across the various age groups in your organisation and **proactively support prevention-better-than-cure-strategies**			
Review pay levels and annual pay cycles across the age bands (for the same jobs) and examine if there is a fair distribution			
Review of **bonus distribution** from an age perspective (an equality audit)			
Undertake regular **age discrimination checks on recruitment and promotions**			
Performance grading equity checks from an age band perspective – examine how the top grades are awarded to ensure it is a fair distribution			
Provide **career guidance** for workers to help people make choices about future career development and assess skill gaps (examples of			

successful **mid-career review**s and mid-career counselling programmes now exist)			
Adaptation of workspaces for older workers such as in the BMW example that showed a 7% productivity improvement after improving seating and production line			
Consider the benefits of a **reverse mentoring** arrangement to **pass different experience and different skills between generations**			
Examine the **organisational culture to age to establish if ageism exists**. Use **role models** of older workers to support culture change			
Measure the **distribution of training spend** amongst the different age groups – ensure it is fairly balanced			
Consider the concept of providing **older workers apprenticeships, internships** or similar programmes			
Develop specific **training targeted at skill gaps for older workers** - not just for young rising professionals			
Specific support and **training for line managers** if they have to manage older team members – there may be ignorance for example about needing time off to care for an elderly relative, and reluctance on the part of the carer to ask for manager support			
Measurement of productivity split between different age groups in the workforce – this is difficult to measure but an important statistic to understand to change perceptions of older workers contribution			

Tackle the issues of **trust and consistency with managers** – use an evaluative framework to ensure fair treatment of all jobs and workers			
Trialling new type **succession planning** approaches such as offering **job share** to older workers and their successors (older worker winds down with dignity, younger worker steps up with expert tuition), or **redeploying** older heavy manual workers into consulting or trouble shooter roles			
Other actions, please state:			

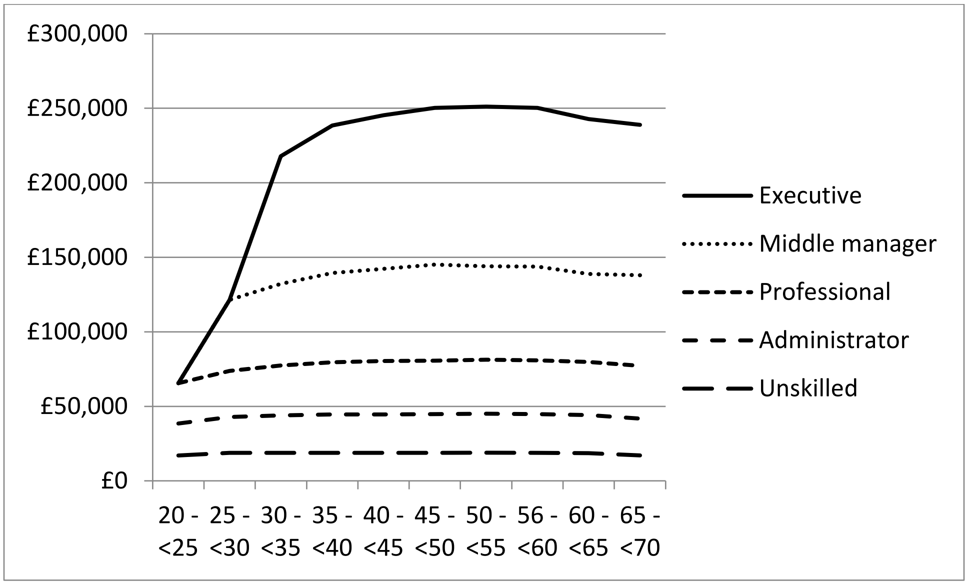
Figure 4: Checklist – how to become an age ready employer

Table 1: At what age do you expect your pay to peak? Data shows the responses of 3,000+ people in UK 2015, with an average age of 61



Source: (Sonsino, 2015)

Table 2: Mercer Market Pay Data age banded results for position classes #40 (Unskilled) labour, #44 Administrator, #48 Professional, #55 Middle Manager, #60 Executive



Appendix Table 1: Extract from Age Friendly Employer Research, 2015

Age-friendly Policy	Very effective or effective	Moderately Effective	Not Effective	No. of responses
Flexible working for all age groups	78%	20%	2%	56
"Preparing for Retirement" programme	86%	14%	0%	36
Advice and support for those caring for ageing relatives	81%	19%	0%	31
Health and/or absence analytics across the various age groups in your organisation	52%	44%	4%	25
Age-specific wellness programme	81%	19%	0%	21
Review of pay levels across the age bands (for the same jobs)	65%	35%	0%	17
Review of pay and bonus distribution from an age perspective (an equality audit)	69%	31%	0%	16
Regular age discrimination checks	69%	31%	0%	16
Career guidance for older workers to help people make choices about future career development	43%	57%	0%	14
Adaptation of workspaces for older workers	83%	17%	0%	12
Performance-grading equity checks from an age band perspective	82%	18%	0%	11
Reverse mentoring	75%	25%	0%	8
Measurement of the distribution of training spend among the different age groups	57%	29%	14%	7
Older workers apprenticeship or similar programmes	100%	0%	0%	4
Training targeted at older workers	50%	50%	0%	2
Specific support and training for line managers if they have to manage older team members	50%	50%	0%	2
Measurement of productivity divided by different age groups in your workforce	100%	0%	0%	2

Source: Mercer survey of HR professionals

Notes: Mercer with TUC and Recruitment Industry, results showing what policies employers offer and how effective they are in becoming 'Age Friendly'